Yuanta Savings Bank Philippines, Inc.

(Formerly TongYang Savings Bank, Inc.)
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Financial Statements
As at December 31, 2017 and 2016 and for the year ended December 31, 2017 and for the six-month period ended December 31, 2016

pwc

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholder of
Yuanta Savings Bank Philippines, Inc.
(Formerly TongYang Savings Bank, Inc.)
G-1A/B, Chatham House Condominium
116 Valero cor. V.A. Rufino Streets
Salcedo Village, Makati City 1227
Philippines

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Yuanta Savings Bank Philippines, Inc. (the "Bank") as at December 31, 2017 and 2016, and its financial performance and its cash flows for the year ended December 31, 2017 and for the six-month period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Bank comprise:

- the statements of financial position as at December 31, 2017 and 2016;
- the statements of total comprehensive income for the year ended December 31, 2017 and for the six-month period ended December 31 ,2016;
- the statements of changes in equity for the year ended December 31, 2017 and for the six-month period ended December 31 ,2016;
- the statements of cash flows for the year ended December 31, 2017 and for the six-month period ended December 31 ,2016; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Isla Lipana & Co.

Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 10, 2018, Makati City
SEC A.N. (individual) as general auditors 0050-AR-4, Category A; effective until January 6, 2019
SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018
TIN 112-071-386
BIR A.N. 08-000745-17-2016, issued on February 9, 2016; effective until February 8, 2019
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
March 22, 2018

Yuanta Savings Bank Philippines, Inc.
(Formerly TongYang Savings Bank, Inc.)
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Financial Position
December 31, 2017 and 2016
(All amounts in Philippine Peso)

	Notes	2017	2016
ASSETS			
Cash and other cash items	2	30,482,474	28,152,184
Due from Bangko Sentral ng Pilipinas	2	483,648,589	779,503,490
Due from other banks	2,3	658,287,623	455,347,604
Available-for-sale investments	4	299,907,400	1,200,000
Held-to-maturity investments	4	352,151,096	350,904,030
Loans and receivables, net	5	478,210,695	519,061,989
Bank premises, furniture, fixtures and equipment, net	6	129,243,213	134,686,871
Deferred tax assets, net	16	32,246,097	47,887,202
Other assets	7	24,727,768	27,394,009
TOTAL ASSETS		2,488,904,955	2,344,137,379
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	8	1,526,102,849	1,329,726,063
Manager's checks		13,444,951	1,895,557
Accrued interest and other expenses	9	8,765,533	3,978,142
Income tax payable	16	407,232	490,508
Retirement benefit obligation	17	7,822,973	7,317,996
Other liabilities	10	10,638,322	9,768,513
Total liabilities		1,567,181,860	1,353,176,779
EQUITY			
Capital stock	11	1,000,000,000	1,000,000,000
Additional paid-in capital	11	9,000,000	9,000,000
Deficit		(82,148,459)	(14,800,720)
Other comprehensive losses, net	12	(5,128,446)	(3,238,680)
Total equity		921,723,095	990,960,600
TOTAL LIABILITIES AND EQUITY		2,488,904,955	2,344,137,379

(The notes on pages 1 to 46 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(Formerly TongYang Savings Bank, Inc.)
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Cash Flows
For the year ended December 31, 2017 and for the six-month period ended December 31, 2016
(All amounts in Philippine Peso)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(41,280,136)	(3,232,567)
Adjustments for:			
Depreciation and amortization	6,7	14,161,737	3,794,461
Provision for (reversal of) impairment losses	5	993,193	(1,336,933)
Retirement benefits expense	17	2,637,907	958,005
Realized gain on sale of financial assets at FVPL			(160,437)
Unrealized foreign exchange gain	23	(129,055)	(3,151,165)
Interest income	2,3,4,5	(91,881,599)	(41,058,155)
Interest received		84,794,646	39,079,345
Interest expense	8	15,039,428	6,106,435
Interest paid		(15,254,141)	(7,285,384)
Gain on disposal of PPE		(1,059)	-
Changes in operating assets and liabilities			
(Increase) decrease in:			
Due from other banks		(251,727,736)	(40,975,149)
Loans and receivables		46,546,073	(97,481,273)
Other assets		(143,838)	(14,496,084)
Increase (decrease) in:			
Deposit liabilities		196,376,786	108,634,341
Manager's check		11,549,394	(124,677)
Accrued interest and other expenses		5,002,104	(580,975)
Other liabilities		869,809	(1,589,141)
Net cash used in operations		(22,446,487)	(52,899,353)
Contribution paid	17	(2,712,561)	-
Income taxes paid		(9,671,722)	(3,972,662)
Net cash used in operating activities		(34,830,770)	(56,872,015)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Available for sale financial assets	4	(300,990,524)	-
Bank premises, furniture, fixtures and equipment	6	(5,911,932)	(17,125,602)
Proceeds from sale of financial assets at FVPL		4,991	934,535
Net cash used in investing activities		(306,897,465)	(16,191,067)
NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD		(341,728,235)	(73,063,082)
CASH AND CASH EQUIVALENTS, BEGINNING		1,069,267,547	1,142,028,436
Effect of foreign exchange rate changes on cash and cash equivalents		(584,093)	302,193
CASH AND CASH EQUIVALENTS, END	2	726,955,219	1,069,267,547

(The notes on pages 1 to 46 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
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Statements of Changes in Equity
For the year ended December 31, 2017 and for the six-month period ended December 31, 2016
(All amounts in Philippine Peso)

	Capital Stock (Note 11)	Additional Paid-in Capital (Note 11)	Deficit	Other Comprehensive Losses, net (Note 12)	Total
Balance at June 30, 2016	1,000,000,000	9,000,000	(6,694,834)	(3,792,351)	998,512,815
Total comprehensive loss					
Net loss for the period	-	-	(8,105,886)	-	(8,105,886)
Other comprehensive income	-	-	-	553,671	553,671
Total comprehensive loss for the period	-	-	(8,105,886)	553,671	(7,552,215)
Balance at December 31, 2016	1,000,000,000	9,000,000	(14,800,720)	(3,238,680)	990,960,600
Total comprehensive loss					
Net loss for the year	-	-	(67,347,739)	-	(67,347,739)
Other comprehensive loss	-	-	-	(1,889,766)	(1,889,766)
Total comprehensive loss for the year	-	-	(67,347,739)	(1,889,766)	(69,237,505)
Balance at December 31, 2017	1,000,000,000	9,000,000	(82,148,459)	(5,128,446)	921,723,095

(The notes on pages 1 to 46 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(Formerly TongYang Savings Bank, Inc.)
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Notes to Financial Statements
As at December 31, 2017 and 2016 and for the year ended December 31, 2017 and for the six-month period ended December 31, 2016
(All amounts in Philippine Peso, unless otherwise stated)

Note 1 - General information

Yuanta Savings Bank Philippines, Inc. (formerly TongYang Savings Bank, Inc.) (the "Bank") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on August 1, 1997. The Bank was authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a thrift bank on October 24, 1997 and started its commercial operations on November 5, 1997.

The Bank is engaged in the general business of savings and mortgage banking and exercises all the rights, attributes, powers and privileges, together with the assumption of all the duties and obligations of a savings and mortgage bank. As a banking institution, the Bank's operations are regulated and supervised by the BSP. On June 14, 2007, the Monetary Board of the BSP granted the Bank the authority to operate a Foreign Currency Deposit Unit (FCDU). On August 1, 2007, the Bank started its FCDU operations.

Under Section 8 of Republic Act (RA) 7906, at least forty percent (40%) of the voting stock of a thrift bank which may be established after the approval of RA 7906 shall be owned by citizens of the Philippines. However, on December 8, 2004, the BSP through its Monetary Board (MB) approved the acquisition of the Bank's one hundred percent (100%) common shares by Tong Yang Securities Korea Co., Ltd.

On August 30, 2013, upon the approval of the SEC, the Bank changed its name from Tong Yang Savings Bank, Inc. to TongYang Savings Bank, Inc.

The Bank was a wholly-owned subsidiary of Tong Yang Securities, Inc. (TYSI) until Yuanta Securities Korea Co. Ltd. (Parent Company) acquired TYSI's shares in the Bank in July 2014. Yuanta Securities Korea Co. Ltd. is 54%-owned by Yuanta Security Asia Financial, a Taiwanese entity owned by Yuanta Holdings Inc., which is the Bank's ultimate Parent Company.

On August 5, 2015, Yuanta Securities Korea Co., Ltd. ("Trustee") and Yuanta Commercial Bank Co., Ltd. ("Trustor") have agreed to execute a Deed of Assignment of Shares pursuant to which the Trustee shall assign, transfer and convey to the Trustor all of its rights, title and interest appurtenant to all issued and outstanding capital stock of the Bank owned by the Trustee. Furthermore, on December 7, 2015, Yuanta Commercial Bank Co., Ltd. invested additional capital to subscribe to 644 million shares at P1 par. As at December 31, 2017 and 2016, the Bank is a wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd. with total capitalization of P1 billion.

On July 18, 2016, upon the approval of the SEC, the Bank changed its name from TongYang Savings Bank, Inc. to Yuanta Savings Bank Philippines, Inc. The Bank also applied for the change of its accounting period from fiscal year ending June 30 to calendar year ending December 31 which was subsequently approved by the Bureau of Internal Revenue (BIR) on August 5, 2016.

The Bank's registered address is at G-1A/B, Chatham House Condominium, Rufino corner Valero Streets, Salcedo Village, Makati City. As at December 31, 2017 the Bank has two (2) existing branches located in Ortigas and Alabang. As at December 31, 2017, the Bank has 76 regular employees (2016 - 74).

The financial statements of the Bank were approved and authorized for issue by the Board of Directors (BOD) on March 19, 2018. There are no material events that occurred subsequent to March 19, 2018 until March 22, 2018.

Note 2 - Cash and cash equivalents; Due from BSP

Details of cash and cash equivalents presented in the statement of cash flows as at December 31, 2017 and 2016 follow:

	Note	2017	2016
Cash and other cash items		30,482,474	28,152,184
Due from BSP		483,648,589	779,503,490
Due from other banks	3	212,824,156	261,611,873
		726,955,219	1,069,267,547

Due from BSP as at December 31 consists of:

	Note	2017	2016
Demand deposit account (DDA)		68,650,255	60,887,987
Overnight deposit facility (ODF)		20,000,000	20,000,000
BSP - Reverse repurchase facility (RRP)		94,998,334	98,615,503
BSP - Time deposit facility (TDF)		300,000,000	600,000,000
		483,648,589	779,503,490

DDA represents reserve requirements as provided under Section 94 of Republic Act (RA) No. 7653. It also includes the Bank's respective working funds to settle transactions due to/from BSP and with other banks, which are subject to payment in legal tender upon demand, by the presentation of checks as provided under Section 58 of RA No. 7653.

Special Deposit Account (SDA) represents settlement account opened by the Bank with an average maturity of seven (7) days. With the implementation of Interest Rate Corridor System (IRC) of the BSP effective June 3, 2016, SDA was replaced by ODF. The ODF functions similar to the SDA and bears similar rate.

RRPs represents placement with the reverse repurchase facility of the BSP. With the implementation of the IRC, RRP was modified to a purely overnight RRP.

TDF represents placement with the key liquidity absorption facility of the BSP with maturity ranging from 7 to 28 days.

For the year ended December 31, 2017, interest income from due from BSP amounts to P23,452,288 (six-month period ended December 31, 2016 - P10,447,293).

Note 3 - Due from other banks

The account as at December 31 consists of:

	2017	2016
Deposit accounts	172,566,096	261,611,873
Placements	485,721,527	193,735,731
	658,287,623	455,347,604

Deposit accounts generally earn interest based on daily bank deposit rates.

The Bank's placements with other banks consist of time deposits with local banks denominated in US dollar for a period of two months to two years with annual interest rates of 1.38% to 2.25% as at December 31, 2017 (2016 - 1.5% to 2.38%). Investments which have maturity date of three months or less from placement date are considered as cash equivalents in the statement of cash flows.

For the year ended December 31, 2017, interest income with other banks amounts to P8,372,230 (six-month period ended December 31, 2016 - P1,725,987).

Note 4 - Investments

Available-for-sale (AFS) investments

The account at December 31 consists of:

	2017	2016
Government debt securities	248,674,500	-
Corporate debt securities	49,882,900	-
Proprietary shares - Country club shares	1,350,000	1,200,000
Available-for-sale, net	299,907,400	1,200,000

Government and corporate debt securities will mature starting April 2020 to July 2023.

The movement in 'Net unrealized gain on financial assets at AFS' follow:

	2017	2016
Balance at beginning of period	380,000	80,000
Unrealized fair value (losses) gains for the period	(2,120,035)	300,000
Balance at end of period	(1,740,035)	380,000

For the year ended December 31, 2017, interest income from government debt securities and other debt securities amounts to P3,415,151 (2016 - nil).

Held-to-maturity (HTM) investments

The account at December 31 consists of:

	2017	2016
Government debt securities		
Current	149,091,579	-
Non-current	152,075,599	299,821,063
	301,167,178	299,821,063
Corporate debt securities		
Current	-	-
Non-current	50,983,918	51,082,967
	50,983,918	51,082,967
	352,151,096	350,904,030

Debt securities carry an interest of 2.13% to 8.60% as at December 31, 2017 and 2016 with various maturity dates from 2018 to 2027.

The movements in HTM investments follow:

	2017	2016
At beginning of period	350,904,030	347,562,125
Amortization of discount (premium), net	1,024,639	(1,011,217)
Effect of foreign exchange rate changes	222,427	4,353,122
At end of period	352,151,096	350,904,030

For the year ended December 31, 2017, interest income from HTM investments amounts to P14,098,043 (six-month period ended December 31, 2016 - P7,046,646).

Note 5 - Loans and receivables, net

The account as at December 31 consists of:

	2017	2016
Receivable from customers		
Consumption	259,098,358	271,448,911
Commercial	201,049,397	228,521,882
Real estate	8,148,108	10,031,686
	468,295,863	510,002,479
Unearned interest and discount	(846,733)	(807,046)
	467,449,130	509,195,433
Other receivables		
Unquoted debt securities	111,142,873	113,338,361
Accrued interest receivables	13,904,893	10,029,554
Accounts receivables	784,484	548,180
	125,832,250	123,916,095
	593,281,380	633,111,528
Allowance for credit losses	(115,070,685)	(114,049,539)
	478,210,695	519,061,989

Unquoted debt securities

As mandated by the BSP under Manual of Regulations for Banks (MORB) Section 341, all banks are required to set aside an amount equivalent to at least twenty five percent (25%) of their loanable funds for agricultural credit in general, of which an amount equivalent to at least ten percent (10%) of the loanable funds shall be available for agrarian reform credit. As an eligible alternative compliance, the Bank acquired Agrarian Reform Bonds of the Philippine Government with issue dates after April 20, 2010. As at December 31, 2017 and 2016, the Bank holds bonds issued by Land Bank of the Philippines (LBP) classified as Loans and receivables, as alternative compliance to agricultural credit, amounting to P86,142,873 and P88,338,361, respectively.

As also mandated by the BSP under MORB Section 342, all banks shall, for a period of ten (10) years from June 17, 2008 to June 16, 2018, allocate at least eight percent (8%) for micro and small enterprise (MSEs) and at least two percent (2%) for medium enterprises (MEs) of their total loan portfolio based on their balance sheet as of the end of previous quarter, and make it available for MSME credit.

In compliance with the mandatory allocation of credit resources to MSMEs, the Bank holds qualified MSME notes which are non-negotiable interest-bearing certificates of indebtedness issued by the Small Business Corporation. As at December 31, 2017 and 2016, the Bank holds MSME notes amounting to P25,000,000.

As at December 31, 2017, the unquoted debt securities are net of unamortized discount of P5,078,153 (December 31, 2016 - P6,434,123).

Interest income on loans and receivables for the periods ended December 31 consists of:

	2017	2016
Receivables from customers		
Consumption	25,295,345	13,023,005
Commercial	11,327,372	7,107,569
Real estate	221,895	287,855
	36,844,612	20,418,429
Unquoted debt securities	5,699,275	1,419,799
	42,543,887	21,838,228

Details of receivables from customers as at December 31 are as follows:

As to collateral (gross of unearned discounts and interest)

	2017	2016
Secured by:		
Real estate	116,846,803	111,597,511
Chattel	81,177,207	133,103,339
Others	1,843,842	-
	199,867,852	244,700,850
Unsecured	268,428,011	265,301,629
	468,295,863	510,002,479

The unsecured portion of loans and receivables by collateral type is covered by post-dated checks.

As to industry/economic sector

	2017	%	2016	%
Service activities	205,666,091	43.92	83,917,048	16.45
Community, social and personal activities	232,912,488	49.73	254,013,983	49.81
Real estate, renting and business activities	8,148,108	1.74	10,031,686	1.97
Others	21,569,176	4.61	162,039,762	31.77
	468,295,863	100.00	510,002,479	100.00

Others include wholesale and retail trade, repair of motor vehicles, motorcycles, personal and household goods, transportation, storage and communications.

Non-performing loans of the Bank, net of specific allowance for credit losses, following BSP Circular 772 are as follows:

	2017	2016
Non-performing loans (NPL)	111,281,975	117,425,344
Less: Allowance for credit losses	106,585,755	104,395,234
	4,696,220	13,030,110

Below is the breakdown of allowance for credit losses as December 31:

	2017	2016
Receivable from customers	112,007,039	111,215,581
Accrued interest receivables	3,063,646	2,833,958
	115,070,685	114,049,539

The movements in allowance for credit losses as at December 31 is as follows:

	2017	2016
At beginning of year	114,049,539	114,952,290
Provision (reversal) during the period	993,193	(1,336,933)
Effect of foreign exchange rate changes	27,953	434,182
At end of year	115,070,685	114,049,539

With the foregoing level of allowance for credit losses, management believes that the Bank has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its receivables and other risk assets.

Note 6 - Bank premises, furniture, fixtures and equipment, net

The movements and the components of the account follow:

	Bank premises	Leasehold improvement	Furniture, fixtures and equipment	Transportation equipment	Total
COST					
Balance at beginning of period	151,546,071	3,498,600	71,014,938	6,474,224	232,533,833
Additions	415,361	266,566	5,211,996	18,009	5,911,932
Reclassifications	32,152	-	-	3,323	35,475
Disposal	-	-	(3,711,816)	-	(3,711,816)
Balance at end of period	151,993,584	3,765,166	72,515,118	6,495,556	234,769,424
ACCUMULATED DEPRECIATION					
Balance at beginning of period	50,053,827	3,498,600	38,641,731	5,652,804	97,846,962
Depreciation	3,273,772	35,542	7,451,572	590,772	11,351,658
Reclassifications	32,152	-	-	3,323	35,475
Disposal	-	-	(3,707,884)	-	(3,707,884)
Balance at end of period	53,359,751	3,534,142	42,385,419	6,246,899	105,526,211
NET CARRYING AMOUNTS, December 31, 2017	98,633,833	231,024	30,129,699	248,657	129,243,213

	Bank premises	Leasehold improvement	Furniture, fixtures and equipment	Transportation equipment	Construction in progress	Total
COST						
Balance at beginning of period	139,585,229	3,498,600	56,129,028	6,345,374	9,850,000	215,408,231
Additions	2,110,842	-	14,885,910	128,850	-	17,125,602
Reclassification	9,850,000	-	-	-	(9,850,000)	-
Balance at end of period	151,546,071	3,498,600	71,014,938	6,474,224	-	232,533,833
ACCUMULATED DEPRECIATION						
Balance at beginning of period	48,583,162	3,498,600	36,830,684	5,309,788	-	94,222,234
Depreciation	1,470,665	-	1,811,047	343,016	-	3,624,728
Balance at end of period	50,053,827	3,498,600	38,641,731	5,652,804	-	97,846,962
NET CARRYING AMOUNTS, December 31, 2016	101,492,244	-	32,373,207	821,420	-	134,686,871

Bank premises pertain to the Bank's head office in Makati and branch in Alabang.

Management believes that there are no indications that the bank premises, furniture, fixture and equipment are impaired.

Note 7 - Other assets

The account as at December 31 consists of:

	2017	2016
Computer software, net	13,379,950	1,402,871
Prepaid expenses	4,316,413	3,022,428
Returned cash and other cash items	-	1,068,566
Prepaid tax	-	5,911
Miscellaneous assets	7,031,405	21,894,233
	24,727,768	27,394,009

The movements of computer software follow:

	2017	2016
Cost		
At beginning of period	4,048,406	3,239,833
Additions	14,787,158	808,573
At end of period	18,835,564	4,048,406
Accumulated amortization		
At beginning of period	2,645,535	2,475,802
Amortization during the period	2,810,079	169,733
At end of period	5,455,614	2,645,535
Net carrying amount	13,379,950	1,402,871

Miscellaneous assets consist mainly of deposits for utilities and rent and from various service providers.

Note 8 - Deposit liabilities

The account as at December 31 consists of:

	2017	2016
Demand	394,950,623	334,032,465
Savings	340,903,306	722,403,507
Special savings	790,248,920	273,290,091
	1,526,102,849	1,329,726,063

The Bank's deposits bear annual interest at rates ranging from 0.25% to 1.25%.

As at December 31, 2017, the Bank has complied with the required statutory and legal reserves amounting to P64.083 million (December 31, 2016 - P51.726 million) (Note 2).

The details of interest expense on deposit liabilities for the periods ended December 31 are as follows:

	2017	2016
Demand	825,290	363,926
Savings	1,305,636	802,305
Special savings	12,908,502	4,940,204
	15,039,428	6,106,435

Note 9 - Accrued interest and other expenses

The account as December 31 consists of:

	2017	2016
Accrued interest	1,174,301	1,389,014
Accrued expenses		
Management and other professional fees	2,687,356	804,108
Staff benefits	2,680,286	560,000
Taxes	602,200	400,000
Security, messenger and janitorial services	452,566	150,000
Directors' fee	243,000	111,000
Membership fee	241,607	-
Rent	115,484	-
Others	568,733	564,020
	8,765,533	3,978,142

Note 10 - Other liabilities

The account as at December 31 consists of:

	2017	2016
Accounts payable	9,487,527	8,006,358
Withholding tax	869,275	522,175
SSS, Philhealth, and Pag-ibig contributions payable	212,420	173,300
Payment orders payable	-	1,024,580
Others	69,100	42,100
	10,638,322	9,768,513

Note 11 - Capital stock

The account as at December 31 consists of:

	2017	2016
Authorized capital stock	1,200,000,000	1,200,000,000
Issued and outstanding (at P1 par value per share)	1,000,000,000	1,000,000,000

Under MORB Section 111.1, the Bank has complied with the minimum capitalization set by the BSP which is P750 million for thrift banks with head office in Metro Manila with up to ten (10) branches.

Additional paid-in capital represents premium received from additional issuance of capital stock in 2003 and 2005.

Note 12 - Other comprehensive loss, net

The account as at December 31 consists of:

	Note	2017	2016
Cumulative actuarial losses on retirement		3,910,422	3,504,680
Unrealized fair value adjustments on AFS investments, net of tax	4	1,218,024	(266,000)
		5,128,446	3,238,680

Note 13 - Service charges and fees

Details of service charges and fees for the periods ended December 31 are as follows:

	2017	2016
Penalties	5,043,956	3,385,739
Service charges and fees from:		
Remittances	4,339,856	2,265,271
Deposits	2,535,221	1,435,611
Loan issuances	1,723,730	307,124
Others	96,309	450,930
	13,739,072	7,844,675

Note 14 - Other expenses

Details of other expenses for the periods ended December 31 are as follows:

	Note	2017	2016
Postage, telephone, cable and telegram		6,486,462	3,822,143
Professional fees		3,997,588	1,703,399
Insurance		3,830,254	1,718,818
Security, messenger and janitorial		3,673,119	1,808,409
Travel and representation		3,166,243	3,706,523
Repairs and maintenance		2,884,049	1,856,736
Rental	19	2,679,535	1,680,149
Power, light and water		2,595,650	1,261,637
Membership fees and dues		2,555,609	630,155
Stationery and supplies used		1,581,107	1,241,462
Advertising and promotion		629,881	446,109
Director's Fee		360,000	204,000
Litigation		313,800	1,023,388
Commissions		97,993	100,258
Others		1,953,739	1,592,700
		36,805,029	22,795,886

Note 15 - Write-off of Due from BSP

The Bank has recognized a loss of P20,518,423 to bring the Due from BSP demand deposit account to its recoverable amount.

Note 16 - Income tax expense; Deferred tax assets, net

The following are the components of income tax expense for the periods ended December 31:

	2017	2016
Current	9,588,446	3,262,131
Deferred	16,479,157	1,611,188
	26,067,603	4,873,319

A reconciliation between the income tax expense at the statutory rates and income tax expense at effective tax rate follows:

	2017	2016
Loss before income tax	(41,280,136)	(3,232,567)
Tax benefit on pretax loss at 30%	(12,384,041)	(969,770)
Tax effects of:		
Income subjected to lower income tax rates	(9,292,769)	(2,535,231)
Non-deductible expenses	9,776,583	735,482
Unrecognized NOLCO and MCIT	45,593,713	7,833,331
Expired NOLCO and MCIT	(7,978,775)	-
Others	352,892	(190,493)
Effective income tax expense	26,067,603	4,873,319

The components of the Bank's deferred tax assets and liabilities as December 31 are as follows:

	2017	2016
Deferred tax assets		
Allowance for credit losses	28,420,935	28,114,591
Retirement liability	2,346,892	2,195,397
MCIT	898,437	2,129,734
Unrealized fair value loss on AFS investment	681,011	-
NOLCO	-	15,860,738
	32,347,275	48,300,460
Deferred tax liabilities		
Unrealized fair value gain on AFS investment	159,000	114,000
Unrealized foreign exchange gain	(57,822)	299,258
	101,178	413,258
Deferred tax assets, net	32,246,097	47,887,202

Deferred income tax assets are recognized only to the extent that taxable income will be available against which the deferred income tax assets can be used. The Bank did not recognize deferred income tax assets on its NOLCO beginning 2017 since the Bank does not expect that it will generate sufficient taxable income to allow all or part of its NOLCO to be utilized.

The details of the Bank's unexpired NOLCO are as follows:

Year of Incurrence	Year of Expiration	2017	2016
2017	2020	65,899,701	-
2016	2019	52,869,125	52,869,125
2015	2018	21,082,807	21,082,807
2014	2017	21,416,161	21,416,161
2013	2016	-	10,149,280
		161,267,794	105,517,373
Used portion/ expired during the period		(21,416,161)	(10,149,280)
NOLCO not recognized		(139,851,633)	(42,498,968)
		-	52,869,125
Tax rate		30%	30%
Deferred income tax asset on NOLCO		-	15,860,738

As at December 31, the Bank has MCIT that can be claimed as deduction from future income tax payable as follows:

Year of Incurrence	Year of Expiration	2017	2016
2017	2020	898,437	-
2016	2019	2,129,734	2,129,734
2015	2018	1,508,490	1,508,490
2014	2017	1,553,927	1,553,927
2013	2016		1,748,477
		6,090,588	6,940,628
Used portion/ expired during the year		(1,553,927)	(1,748,477)
MCIT not recognized		(3,638,224)	(3,062,417)
		898,437	2,129,734

Note 17 - Employee benefits

Compensation and employee benefits

Compensation and employee benefits for the periods ended December 31 consist of:

	2017	2016
Salaries and wages	35,138,776	15,040,030
Employee benefits	23,667,245	7,519,309
Retirement benefits expense	2,637,907	958,005
	61,443,928	23,517,344

Retirement benefits

The Bank accrues retirement benefits based on an annual actuarial valuation report covering regular and qualified employees.

The Bank maintains a non-contributory defined benefit type plan which provides a retirement benefit equal to 100% of Plan Salary for every year of credited service. Benefits are paid in lump-sum upon retirement or separation in accordance with the terms of the Plan.

The Bank's latest actuarial valuation was performed as of December 31, 2017.

Details of the retirement benefits obligation recognized in the statement of financial position as at December 31 are as follows:

	2017	2016
Present value of benefit obligations	10,461,489	9,004,256
Fair value of plan assets	(2,638,516)	(1,686,260)
Retirement benefit obligation	7,822,973	7,317,996

Details of the retirement benefits expense recognized in profit or loss for the periods ended December 31 are as follows:

	2017	2016
Current service cost	2,269,769	808,172
Net interest cost	368,138	149,833
	2,637,907	958,005

Details of remeasurements recognized in other comprehensive income as at December 31 follow:

	2017	2016
Remeasurement loss (gain) - defined benefit liability	465,019	(562,949)
Remeasurement loss - plan assets	114,612	37,705
	597,631	(525,244)

The movements in the present value of retirement benefits obligation are as follows:

	2017	2016
At beginning of period	9,004,256	8,934,358
Current service cost	2,269,769	808,172
Interest cost	484,429	189,408
Remeasurements:		
Gain from changes in financial assumptions	(72,492)	(175,941)
Loss (gain) from experience adjustments	537,511	(387,008)
Benefits paid	(1,761,984)	(364,733)
At end of period	10,461,489	9,004,256

The movements in the fair value of plan assets are as follows:

	2017	2016
At beginning of period	1,686,260	2,049,123
Contributions	2,712,561	-
Interest income	116,291	39,575
Remeasurement loss on return on plan asset	(114,612)	(37,705)
Benefits paid	(1,761,984)	(364,733)
At end of period	2,638,516	1,686,260

Plan assets at December 31, 2017 and 2016 comprise cash and cash equivalents in which the carrying amount approximates its fair value at said dates.

The actuarial assumptions used to determine retirement benefit obligation as at December 31 are as follows:

	2017	2016
Discount rate	5.70%	5.38%
Salary increase rate	3.50%	3.50%

The discount rate as at December 31, 2017 and 2016 was based on approximated zero-coupon yield of government bonds with remaining period to maturity approximating the estimated average duration of benefit payment. The salary increase rate assumption takes into consideration the prevailing inflation rate and Bank's policy.

Discount rate sensitivity

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Bank's accrued retirement benefits. The sensitivity analysis is prepared assuming the fair value of asset does not vary during the period. The methods and assumptions are the same in prior years. A 100bps increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase. The impact on the Bank's retirement benefits obligation which affects the Bank's cash flow is as follows:

	Increase in assumption	Decrease in assumption
December 31, 2017		
Discount rate	(216,867)	231,741
Salary growth rate	188,564	(181,051)
December 31, 2016		
Discount rate	(145,332)	153,715
Salary growth rate	103,948	(100,173)

Expected maturity analysis of retirement obligation follow:

	Less than a year	Between 1-2 years	Between 3-4 years	Over 5 years
December 31, 2017	73,926	1,546,858	4,952,072	18,380,227
December 31, 2016	-	-	-	3,104,371

Except for the disclosure above and the preceding pages, no other transaction occurred with the retirement plan as at December 31, 2017 and 2016.

Note 18 - Related parties

The Bank, in the normal course of business, has transactions with related parties. The following are the specific relationship, amount of transactions, account balances, the terms and conditions and the nature of the consideration to be provided in the settlement.

a) *Loans and credit accommodations to directors, officers, stockholders and other related interests (DOSRI)*

The Bank, from time to time, provides financial assistance to officers and employees, as part of their benefit program, to meet housing, transportation, household and personal needs of officers and employees subject to the terms and conditions approved by the BSP. As at December 31, 2017, the Bank has unsecured outstanding loans with DOSRI amounting to P307,118 (2016 - 555,889).

b) *Remuneration of key management personnel*

The salaries and employee benefits given to the Bank's key management personnel for the period ended December 31, 2017 amount to P17,503,147 (December 31, 2016 - P11,230,248). Key management personnel include managerial and higher level positions.

Note 19 - Leases

The Bank renewed its contract for the lease of its Ortigas branch for a term of five (5) years from March 1, 2016 to February 28, 2021. The non-cancellable leases are renewable upon mutual agreement of both parties and are subject to 7% escalation on the rental fees starting on the third year. The Bank has paid a security deposit and advance rental of P472,190 and P1,222,031, respectively, which are included as part of "Miscellaneous assets" under Other assets in the statement of financial position (Note 7).

Total lease payments charged to operations amount to P2,679,535 for the period ended December 31, 2017 (December 31, 2016 - P1,680,149) (Note 14).

Future minimum rentals payable on the leases are as follows:

	2017	2016
Due within the year	2,426,228	2,292,499
Due beyond 1 year but not more than 5 years	5,841,920	8,268,148

Note 20 - Significant contracts

On August 8, 2006, the Bank executed a memorandum of agreement with the Philippine Retirement Authority (PRA) which qualified the Bank as a depository or trustee for the requisite deposit of the retirees under the Retirement Program of the PRA. Under the program, the qualified retirees are required to open a time deposit, trust account or any other instrument that the Bank offers and will earn interest at a rate of 2% per annum. Upon maturity, unless otherwise directed by the retiree, the net interest earned will then become part of the principal.

As at December 31, 2017 and 2016, total special savings deposits pertaining to this program amount to P511.83 million and P29.88 million, respectively, included under "Special savings" in deposit liabilities (Note 8). Under the agreement, certain conditions should be met for the Bank to qualify as a depository unit of PRA, these include, but not limited to the following: maintenance of a capital adequacy, asset quality, management, earnings, liquidity risk, and sensitivity to market risk (CAMEL) rating of at least "3" from the BSP. As at December 31, 2017 and 2016, the Bank had satisfactorily complied with these PRA requirements.

As at December 31, 2017 and 2016, PRA management fees amount to P6,917,751 and P2,612,347 respectively, and is shown as part of interest expense on special savings account (Note 8).

Note 21 - Basic quantitative indicators of financial performance

The Bank's key financial performance indicators are as follows (in %):

	For the year ended December 31, 2017	For the six-month period ended December 31,2016
Return on average equity	(7.04%)	(0.81%)
Return on average assets	(2.79%)	(0.35%)
Net interest margin	0.91%	0.86%

Note 22 - Critical accounting judgments and estimates

The preparation of the financial statements in compliance with PFRSs requires management to make judgments and estimates that affect amounts reported in the financial statements. The judgments and estimates used in the financial statements are based upon management's evaluation of facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances.

Critical accounting judgments

i. Classification of HTM investments (Note 4)

The Bank follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not at amortized cost.

ii. Realization of deferred income tax assets (Note 16)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied.

Critical accounting estimates

i. Impairment losses on loans and receivables (Note 5)

The Bank reviews its loan portfolios and receivables to assess impairment on a semi-annual basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by the Bank's Collection Head. In determining whether provision for credit losses is necessary, the Bank makes judgment based on observable data indicating measurable decrease in the estimated future cash flows of loan accounts such as:

- Aging of the account;
- Last payment made by the borrower or co-maker on the account;
- Possibility of collection of the account;
- Capacity of the borrower or co-maker to pay the account (employment factors or other sources of repayment); and
- Any adverse collection findings on the borrower or co-maker (i.e., unemployed, moved out, cannot be contacted, absconding, sickness, etc.)

Management uses estimates in the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions affected by several factors in which actual results may differ, thus, resulting in future changes in the allowance. In addition to specific allowance against individually impaired loans and receivables, the Bank also makes a collective impairment allowance to those accounts having greater risk of default than when they were originally granted.

Allowance for credit losses on loans and receivables amounts to P115,070,685 and P111,049,539 as at December 31, 2017 and 2016, respectively.

ii. Estimated useful lives of bank premises, furniture, fixtures and equipment, and computer software (Notes 6 and 7)

The Bank estimates the useful lives of its bank premises, furniture, fixtures and equipment, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear. The estimation of the useful lives of the bank premises, furniture, fixtures and equipment and computer software are based on a collective assessment of industry practice and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the bank premises, furniture, fixtures and equipment and computer software would increase recorded operating expenses and decrease the related assets.

iii. Estimated Retirement Benefits Obligation (Note 17)

The determination of the Bank's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 and include, among others, discount rates and salary increase rate. In accordance with PFRSs, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Retirement benefit obligation as at December 31, 2017 and 2016 is disclosed in Note 17.

Note 23 - Financial risk and capital management

Financial risk management objectives and policies

The Bank's operation involves the traditional banking activities of deposit-taking and lending to qualified individual or corporate borrowers and use of financial instruments. The Bank is exposed to the following risks from its use of financial instruments: (a) credit; (b) liquidity; (c) interest rate; (d) foreign currency; and (e) price risks.

The Bank is exposed to a variety of financial risks which results from its operating and investing activities. The Bank's risk management focuses on actively securing the Bank's short to medium term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

Risk management structure and process

The Bank has established sound risk management practices which include appropriate and reasonable contingency plans in handling risks and to guide the Bank's management and BOD to understand, measure, monitor and control the risk assumed, adopt risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and maintain capital commensurate with the risk exposure assumed.

The BOD and Senior Management of the Bank are ultimately responsible for the oversight of the Bank's risk management process. The BOD is responsible for understanding the nature and the level of risks taken by the Bank. The Senior Management is responsible for ensuring that risks are adequately managed both long-term and day-to-day basis. The Bank's BOD is in-charge of the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines, policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits.

To effectively manage the risks, the Bank identifies current and prospective risk exposures by understanding the sources of risks arising from the Bank's existing or new business initiatives. The head of each department identifies various risks on their current and future operations/products or services. Identifying risk includes identifying the Bank's desired level of risk exposure (risk appetite) based on its ability and willingness to assume the risk.

Risk appetite is set by the Bank's BOD after discussion of the impact, likelihood and alternative ways to manage risk with various department heads. Risk identification is a continuing process and occurs at both the transaction and portfolio level.

Once the sources of risks have been identified, risk measurement models are applied to quantify the Bank's risk exposures. Risk measurement systems and methodologies are integrated in the Bank's risk management process and results are interpreted in coordination with other risk exposures. The Bank's Asset and Liability Committee (ALCO) is responsible for the assessment of possible liquidity risks by establishing indicators of potential risk, assessment and matching potential sources of funds, and monitoring of internal as well as market indicators of liquidity problems of the Bank. ALCO is also responsible for communicating potential exposure of the Bank to interest risk and foreign currency risk to the Senior Management and BOD. The Bank has also created a Credit Committee (CRECOM) which is responsible for the stringent evaluation and approval of loans and for remedial actions on problematic loan accounts.

The Bank maintains an adequate system of internal controls to ensure the integrity of its risk management process. These internal controls are integral part of the Bank's overall system of control. An independent internal audit review on the risk management process is performed on an annual basis. The Internal Audit Department is mandated to conduct annual review and results are reported to the Audit Committee and Senior Management for proper action. The ALCO also conducts review of the guidelines and introduces revisions on the risk management process. The review of risk management process also includes assessment of the assumptions, parameters, and measures used.

23.1 Credit risk

Credit risk is the risk of financial loss arising from the borrowers' inability to meet their contractual obligation. The Bank's operation involves the traditional banking activities of deposit-taking and lending to qualified individual or corporate borrowers. Financial problems may arise from lending activities specifically from failure of the borrowers to pay their obligation on time, poor monitoring of documentary requirements that are required to be submitted annually, or failure to regularly monitor the submission of updated reports for active accounts.

The following guidelines are being implemented by the Bank to mitigate credit risk:

Collection management guidelines

This defines the collection or recovery process of delinquent accounts, the policies on loan loss provisioning, restructuring of accounts, writing off delinquent accounts, compromise agreements and other matters on collection.

Credit guidelines for loans

This defines the requirements, features, qualifications of loan products being offered by the Bank. It includes the process from loan application to approval and monitoring. The following were performed by the Bank to manage credit risk:

- The Bank offers loan products to qualified individuals based on sound and prudent bank practices and in accordance with its existing policies;
- Extending loan facilities to qualified individuals, by taking into consideration the character, capacity, collateral and condition of each borrower;
- For loans that are secured by collaterals, the Bank ensures that it can annotate its mortgage and therefore, protect its legal interest thereto; and
- The Bank ensures that loans are approved by the CRECOM and BOD based on set limits.

The table below shows the maximum exposure to credit risk of the Bank as at December 31:

	2017	2016
Due from Bangko Sentral ng Pilipinas	483,648,589	779,503,490
Due from other banks	658,287,623	455,347,604
Available-for-sale financial assets	298,557,400	-
Held-to-maturity investments, net	352,151,096	350,904,030
Loans and receivables, net	478,210,695	519,061,989
Miscellaneous deposits	4,667,282	19,883,441
	2,275,522,685	2,124,700,554

The following table sets out the credit quality of financial assets by category of the Bank:

December 31, 2017	Neither past due nor impaired	Past due with partial impairment 91 -180 days	181 -360 days	>361 days	Impaired	Total
Due from BSP	483,648,589	-	-	-	-	483,648,589
Due from other banks	658,287,623	-	-	-	-	658,287,623
Available-for-sale	298,557,400	-	-	-	-	298,557,400
HTM investments	352,151,096	-	-	-	-	352,151,096
Loans and receivables	480,133,895	1,704,119	4,391,728	45,064,434	61,987,204	593,281,380
Miscellaneous deposits	4,667,282	-	-	-	-	4,667,282
	2,277,445,885	1,704,119	4,391,728	45,064,434	61,987,204	2,390,593,370
Allowance for credit losses						
Specific						(20,572,379)
Collective						(94,498,306)
						(115,070,685)
						2,275,522,685

December 31, 2016	Neither past due nor impaired	Past due with partial impairment 91 -180 days	181 -360 days	>361 days	Impaired	Total
Due from BSP	779,503,490	-	-	-	-	779,503,490
Due from other banks	455,347,604	-	-	-	-	455,347,604
HTM investments	350,904,030	-	-	-	-	350,904,030
Loans and receivables	426,037,578	100,022,169	4,400,000	7,059,000	95,592,781	633,111,528
Miscellaneous deposits	19,883,441	-	-	-	-	19,883,441
	2,031,676,143	100,022,169	4,400,000	7,059,000	95,592,781	2,238,750,093
Allowance for credit losses						
Specific						(110,832,423)
Collective						(3,217,116)
						(114,049,539)
						2,124,700,554

The Bank considers the credit quality of loans and receivable based on the historical information about the customers default rates. The Bank's management considers that substantial portion of loans and receivables that are neither past due nor impaired as at reporting date are of good credit quality.

Credit risk for due from other banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. The Bank considers the credit risk on due from BSP, interbank call loans receivable and securities related to the Philippine government such as unquoted debt securities as negligible.

Past due accounts were classified by the Bank as partially impaired loans and receivables and has adopted guidelines in developing specific provision to be provided based on loan status and number of days past due.

The Bank holds collateral against specific type of loans and receivables in the form of chattel and mortgage interests, other registered securities over assets, hold-out agreements and guarantees such as post-dated checks. Estimates of fair value (for determining loanable amount) are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The fair value of real and chattel mortgage held as collateral against loans and receivables amounts to P268 million and P378 million as at December 31, 2017 and 2016.

23.2 Liquidity risk

Liquidity represents the ability to fund assets and meet obligations as they become due. It is essential for banks to compensate for expected and unexpected balance sheet fluctuations and provide funds for growth. To manage liquidity risk, the Bank has established Liquidity Risk Management Practices (LRMP) to ensure that the Bank is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner. The Bank's LRMP also reflects the ability of the Bank to manage unplanned changes in funding sources, as well as to react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. It also includes evaluating various funding sources and the costs associated with the sources identified.

Funding diversification allows the Bank to maintain access to different funding lines and allows more flexibility in selecting the appropriate funding source.

The Bank uses the following risk measurement methodologies to measure liquidity risk exposure:

a) Risk impact and likelihood rating guide

- No. 1 rating - may occur only in exceptional circumstances
- No. 2 rating - could occur at some time (low probability of occurrence)
- No. 3 rating - might occur at some time (moderate probability)
- No. 4 rating - will probably occur in most circumstances
- No. 5 rating - is expected to occur in most circumstances and has occurred several times in the unit

b) Daily cash level report (in Philippine peso and US dollar)

The Bank uses daily cash level report to measure excess funds on a daily basis and exposure on day to day (short term) funding liquidity risk. It is also used to determine the sufficiency of the Bank's reserves and excess funds available for BSP overnight lend.

c) Maturity matching

The Bank measures the exposure on liquidity risk arising from mismatched maturities of assets and liabilities, otherwise known as "tenor gaps". In this method, the Bank's financial assets and liabilities are divided into time bands and then slots each cash inflow and outflow items according to maturity dates. The overall objective is to determine and control liquidity "gaps" and highlight long term build ups in cash inflows and outflows. A gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Bank's net excess funds for the time band. A negative liquidity gap is an estimate of the future funding requirements of the Bank.

The table below presents an analysis of the maturity groupings of resources and liabilities as at December 31, 2017 and 2016 in accordance with BSP account classifications. The liability balances disclosed in the following tables are based on contractual undiscounted cash flows, which may differ from the amounts included in the statement of financial position due to certain items which are based on discounted cash flows.

December 31, 2017	1-3 months	3 months-1 year	over 1-5 years	over 5 years	Total
Assets					
Cash and other cash items	30,482,474	-	-	-	30,482,474
Due from BSP	484,048,025	-	-	-	484,048,025
Due from other banks	314,274,458	262,090,463	87,285,677	-	663,650,598
AFS financial assets	-	-	293,880,993	63,151,555	357,032,548
HTM investments	-	151,248,801	107,335,959	141,018,837	399,603,597
Loans and receivables	89,353,872	139,094,494	128,981,772	230,804,959	588,235,097
Miscellaneous deposits	-	-	4,667,282	-	4,667,282
	918,158,829	552,433,758	622,151,683	434,975,351	2,527,719,621
Liabilities					
Deposit liabilities	528,444,752	1,002,574,103	-	-	1,531,018,855
Manager's check	13,444,951	-	-	-	13,444,951
Accrued interest other expenses	8,765,533	-	-	-	8,765,533
Other financial liabilities	9,487,527	-	-	-	9,487,527
	560,142,763	1,002,574,103	-	-	1,562,716,866
Gap	358,016,066	(450,140,345)	622,151,683	434,975,351	965,002,755

December 31, 2016	1-3 months	3 months- 1 year	1-5 years	over 5 years	Total
Assets					
Cash and other cash items	28,152,184	-	-	-	28,152,184
Due from BSP	746,523,077	13,952,051	19,028,362	-	779,503,490
Due from other banks	271,929,807	68,315,997	115,101,800	-	455,347,604
HTM investments	-	11,550,254	268,412,312	114,802,135	394,764,701
Loans and receivables	353,768,931	169,290,622	110,051,975	-	633,111,528
Miscellaneous deposits	-	-	19,883,441	-	19,883,441
	1,400,373,999	263,108,924	532,477,890	114,802,135	2,310,762,948
Liabilities					
Deposit liabilities	520,617,834	182,733,096	640,504,287	-	1,343,855,217
Manager's check	1,895,557	-	-	-	1,895,557
Accrued interest other expenses	3,578,142	-	-	-	3,578,142
Other financial liabilities	8,006,358	-	-	-	8,006,358
	534,097,891	182,733,096	640,504,287	-	1,357,335,274
Gap	866,276,108	80,375,828	(108,026,397)	114,802,135	953,427,674

The Bank performs the following to mitigate exposure to liquidity risk:

- Avoiding extreme concentration of transactions in a single market and loan exposure in a single industry;
- Diversification of loan / asset exposures in different industries, the types of transactions in which the Bank will engage in and establish exposure limits per industry/per individual type of products;
- Lending and investing only in highly liquid markets;
- Consideration of the availability of alternative markets as protection against the possibility of losing access to one or more markets during periods of overall market stress;
- Requiring treasury personnel to continuously observe market conditions and notify Risk Managers/Senior Management of any indications of market illiquidity (including suspension of availment on existing credit lines);
- Requiring Account Officers and Loan Officers to continuously observe market conditions and report to Risk Managers/Senior Management any indications of stress or problems in any industry/borrower;
- Consideration of the possible need to rebalance portfolios, provide extra collateral and manage potential defaults;
- Establishment of procedures that will identify and address timing mismatches in offsetting payment and delivery obligations, such as early terminations of deposits. This will be achieved through the preparation and analysis of various reports; and
- Observation of various control limits set by the BOD to minimize exposure on liquidity risk.

In addition to the developed procedures that mitigate liquidity risk exposure, the Bank has established a contingency plan to deal with temporary and long term liquidity disruptions.

23.3 Interest rate risk

Interest rate risk is the risk that changes in market interest rates will reduce current or future earnings and/or the economic value of a financial institution. Accepting interest rate risk is a normal part of the Bank's operation and is a major source of profitability and shareholder value. Excessive or inadequately understood and controlled interest rate risk, however, can pose a significant threat to the Bank's earnings and capital. Thus, an effective risk management process that maintains interest rate risk within prudent levels is essential to ensure the safety and soundness of the Bank. The Bank classifies sources of interest rate risk as option risk and repricing.

a) Prepayment option risk

Option risk is presented by optionality that is embedded in some assets and liabilities. The most common example is the mortgage loan. This type of loan presents significant option risk due to prepayment option available to clients.

For salary loans and other types of loans, the clients have the option to prepay the loan or they can extend the term of the loan which has the effect of slowing down the repayment. In terms of deposit products, clients have the option to terminate deposit accounts which in turn would lessen deposit liabilities of the Bank. As at December 31, 2017 and 2016, loans subject to option risk represents commercial and consumption loans with an aggregate amount of P460,147,755 and P499,970,793, respectively (Note 6). The effect of prepayment option is deemed not significant as the option price normally approximates the amortized cost of the financial instruments at option date.

b) Repricing risk

The simplest technique for measuring interest rate risk exposure starts with a maturity or repricing schedule that distributes interest-sensitive assets, liabilities and off-balance sheet positions into a certain number of predefined time bands according to their maturity or time remaining to their next repricing. The Bank has condominium loan products in which borrowers may choose to avail of the fixed interest rate from one (1) to five (5) years. The market rate may tend to go up or down which exposes the Bank to repricing risk. As at December 31, 2017 and 2016, the Bank's condominium loans under Real estate account which are subject to repricing risk amount to P8,148,108 and P10,031,686, respectively (Note 6).

The Bank follows a prudent policy in managing its assets and liabilities so as to ensure that its exposure to fluctuations in interest rate is kept within acceptable limits.

The Bank adopts repricing gap analysis in analyzing its resources and liabilities based on expected interest realization and recognition.

If the analysis shows a positive gap, the Bank is exposed to the risk that interest rates will go down; however, if the analysis shows a negative gap, the Bank is exposed to the risk that interest rates will go up.

The analyses of the groupings of the Bank's assets and liabilities as at December 31, 2017 and 2016 based on expected interest realization or recognition are as follows:

	Repricing				
December 31, 2017	1-3 months	3 months- 1 year	1-5 years	Non-repricing	Total
Assets					
Cash and other cash items	-	-	-	30,482,474	30,482,474
Due from BSP	-	-	-	483,648,589	483,648,589
Due from other banks	-	-	-	658,287,623	658,287,623
AFS financial assets	-	-	-	298,557,400	298,557,400
HTM investments	-	-	-	352,151,096	352,151,096
Loans and receivables	23,437,604	317,436,119	137,336,972	-	478,210,695
Miscellaneous deposits	-	-	-	4,667,282	4,667,282
	23,437,604	317,436,119	137,336,972	1,827,794,464	2,306,005,159
Liabilities and equity					
Deposit liabilities	662,905,973	127,342,948	-	735,853,928	1,526,102,849
Manager's check	-	-	-	13,444,951	13,444,951
Other financial liabilities	-	-	-	9,487,527	9,487,527
	662,905,973	127,342,948	-	758,786,406	1,549,035,327
Gap	(639,468,369)	190,093,171	137,336,972	1,069,008,058	756,969,832

	Repricing				
December 31, 2016	1-3 months	3 months- 1 year	1-5 years	Non-repricing	Total
Assets					
Cash and other cash items	-	-	-	28,152,184	28,152,184
Due from BSP	-	-	-	779,503,490	779,503,490
Due from other banks	387,031,607	68,315,997	-		455,347,604
HTM investments	-	-	-	350,904,030	350,904,030
Loans and receivables	239,719,392	169,290,622	110,051,975		519,061,989
Miscellaneous deposits	-	-	-	19,883,441	19,883,441
	626,750,999	237,606,619	110,051,975	1,178,443,145	2,152,852,738
Liabilities and equity					
Deposit liabilities	518,851,690	177,434,663	633,439,710	-	1,329,726,063
Manager's check	-	-	-	1,895,557	1,895,557
Other financial liabilities	-	-	-	8,857,199	8,857,199
	518,851,690	177,434,663	633,439,710	10,752,756	1,340,478,819
Gap	107,899,309	60,171,956	(523,387,735)	1,167,690,388	812,373,918

The Bank can tolerate a cumulative positive or negative gap of at least 35% for regular banking unit and 85% for the FCDU's total interest rate sensitive assets or liabilities and equity. Any excess thereon is communicated to the ALCO who courses through to Senior Management and BOD for proper action.

The table below represents the sensitivity of the Bank's financial assets to a ±100 basis points possible interest rate changes with all other variables held constant as at December 31:

Effect of reasonably possible shift	Change in interest rate	2017	2016
Interest rate-sensitive financial assets			
Due from other banks	±100 bps	± 4,857,215	± 1,937,357
Loans and receivables, net	±100 bps	± 4,682,958	± 5,091,954
		±9,540,173	±7,029,311
Interest rate-sensitive financial liability			
Deposit liabilities	±100 bps	±15,261,028	±13,297,261

23.4 Foreign currency exchange risk

Foreign currency exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. In contracting to meet clients' foreign currency needs or simply buying and selling foreign exchange for its own account, the Bank undertakes a risk that exchange rates might change subsequent to the time the contract is consummated.

Most of the Bank's transactions are carried out in Philippine peso. Exposures to foreign currency exchange risk arise mainly from the foreign currency denominated due from other banks maintained by the Bank.

Foreign currency denominated financial assets as at December 31, 2017 and 2016 are translated into Philippine peso at closing rate as follows:

	December 31, 2017		December 31, 2016	
	In US Dollar	In Philippine Peso	In US Dollar	In Philippine Peso
Financial assets				
Cash and other cash items	166,226	8,299,664	165,365	8,221,931
Due from other banks	12,779,399	638,075,415	8,773,635	436,225,157
HTM investments	1,041,022	51,978,228	1,059,172	52,662,020
Loans and receivables	1,023,267	51,091,721	2,212,100	109,985,626
Other assets	3,175	158,528	-	-
	15,013,089	749,603,556	12,210,272	607,094,734
Financial liabilities				
Deposit liabilities	14,518,745	724,920,938	11,887,913	591,067,049
Accrued interest payable	1,566	78,190	401	19,931
	14,520,311	724,999,128	11,888,314	591,086,980
Total net exposure	492,778	24,604,428	321,958	16,007,754

These balances were translated using the Philippine Depository System (PDS) peso-dollar exchange rates of P49.93 and P49.72 as at December 31, 2017 and 2016, respectively. Net unrealized foreign exchange gain (loss) for the year ended December 31, 2017 and six-month period ended December 31, 2016 amount to P129,055 and P3,151,165, respectively.

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency denominated loans and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency denominated liabilities with the foreign currency denominated assets held under the FCDU books. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held under the FCDU. As at December 31, 2017 and 2016, the Bank is in compliance with the said regulations.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

For a 3.56% and 5.22% change in the foreign exchange rate of the Bank against relevant currency, there would be an equal and opposite impact on the pre-tax income and equity and the effects are shown below:

	Change in FX rate	Impact on pre-tax income	Impact on equity
December 31, 2017	+/- 3.56%	+/- 875,918	+/- 613,143
December 31, 2016	+/- 5.22%	+/- 835,604	+/- 584,923

Exposures to foreign exchange rate fluctuation vary during the year depending on the volume of USD buying and selling transactions. Nonetheless, the analysis above is considered to be representative of the Bank's exposure to foreign currency risk.

23.5 Price risk

The Bank is exposed to price risk on the fluctuation on the price or fair value of its financial assets at AFS financial assets - quoted equity securities. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments. The fair value of AFS financial assets are based on published prices in the market.

The following table details the Bank's sensitivity to a 10% increase and decrease in the market prices of AFS financial asset. The sensitivity rate used represents the management's assessment of the reasonably possible changes in the market values.

December 31, 2017	Change in market values	Impact on pre-tax income	Impact on equity
AFS financial assets	+10%	-	94,500
	-10%	-	(94,500)

December 31, 2016	Change in market values	Impact on pre-tax income	Impact on equity
AFS financial assets	+10%	-	120,000
	-10%	-	(120,000)

23.6 Fair value information

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follow:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Financial asset measured at fair value

The fair value and fair value hierarchy of AFS financial assets as at December 31 is as follows:

	2017	2016	Valuation
AFS financial assets			
Level 1	298,557,400	-	Published prices
Level 2	1,350,000	1,200,000	Published prices
	299,907,400	1,200,000	

Financial assets and liabilities measured at amortized cost for which fair value is disclosed

The following gives the fair value information of the Bank's financial assets and liabilities, which are not measured at fair value, but the fair values are disclosed at the end of each reporting period:

	December 31, 2017		December 31, 2016	
	Carrying values	Fair values	Carrying values	Fair values
Financial assets				
Cash and other cash items	30,482,474	30,482,474	28,152,184	28,152,184
Due from BSP	483,648,589	483,648,589	779,503,490	779,503,490
Due from other banks	658,287,623	658,287,623	455,347,604	455,347,604
Held-to-maturity investments	352,151,096	354,967,493	350,904,030	358,108,773
Loans and receivables, net	478,210,695	536,608,389	519,061,989	633,654,295
Miscellaneous deposits	4,667,282	4,667,282	20,396,017	20,396,017
Financial liabilities				
Deposit liabilities	1,526,102,849	1,526,102,849	1,329,726,063	1,329,726,063
Manager's checks	13,444,951	13,444,951	1,895,557	1,895,557
Accrued interest and other expenses	8,163,333	8,163,333	3,578,142	3,578,142
Other liabilities	9,487,527	9,487,527	9,073,042	9,073,042

These financial assets and liabilities are classified under Level 2 of the fair value hierarchy.

Cash and other cash items and due from BSP and other banks

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date.

Held-to-maturity investments

Fair value of held-to-maturity investments is based on market prices or broker/dealer price quotations.

Loan and receivables

Fair values are estimated using the discounted cash flow technique that makes use of interest rates of similar instruments.

Financial liabilities

The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using market interest rates for new debts with similar remaining maturity.

Other financial assets and liabilities

Carrying amounts of other financial assets and liabilities which have no definite repayment dates are assumed to be their fair values.

23.7 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with the BSP imposed minimum capital requirements and to maintain healthy capital ratios in order to support its business and to maximize shareholders' value.

Under MORB Section 111.1, the Bank has complied the minimum capitalization set by the BSP which is P750 million for thrift banks with head office in Metro Manila with up to ten (10) branches.

The Bank also complies with minimum Capital Adequacy Ratio (CAR) as mandated by the BSP. The risk based CAR of thrift banks expressed as a percentage of qualifying capital to risk-weighted asset, shall not be less than ten percent (10%). Qualifying capital consists of Tier 1 (core plus hybrid) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital. Tier 1 capital consists of the Bank's total equity excluding net unrealized losses on AFS financial assets, unbooked valuation reserves and other capital adjustments based on latest report of examination as approved by the Monetary Board, total outstanding unsecured loans and credit accommodations, net of allowance for credit losses and deferred tax asset, net of deferred tax liability. Tier 2 capital consists of general loan loss provision and unsecured subordinated debt. Risk-weighted asset is the assigned risk weight to assets after exclusion of zero percent (0%) risk weight assets such as cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRSs.

On May 13, 2010, the Monetary Board, in its Resolution No. 688 approved the revised guidelines implementing the revised risk-based capital adequacy framework for thrift banks. The circular took effect on January 1, 2012. Thereafter, the Bank measures CAR based on the revised framework. As at December 31, the Bank's CAR is computed as follows:

	2017	2016
	(In Thousands of Pesos)	
Qualifying capital		
Net Tier 1 capital	899,939	942,054
Net Tier 2 capital	3,220	3,217
Total qualifying capital	903,159	945,271
Risk weighted assets		
Credit risk weighted assets	1,503,189	1,292,499
Operational risk weighted assets	146,097	143,354
Total risk weighted assets	1,649,286	1,435,853
CAR	54.76%	65.83%

The Bank has fully complied with the minimum CAR requirement of ten percent (10%).

Note 24 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both periods presented, unless otherwise stated.

24.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PASs) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The Bank's financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value.

The Bank presents its statement of financial position in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 23.2 (c).

The financial statements as at and for the six-month period ended December 31, 2016 are prepared following the change in the Bank's accounting period as disclosed in Note 1.

(a) New and amended standards adopted by the Bank

The following standards have been adopted by the Bank effective January 1, 2017:

- *Amendments to PAS 12, 'Income taxes'.* The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that: (a) a temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period; (b) an entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit; (c) where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type; and (d) tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit.

- *Amendments to PAS 7, 'Statement of Cash Flows'.* The amendments require entities to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows and non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchanged differences. Changes in financial assets must be included in the disclosure if the cash flows were, or will be, included in cash flows from financing activities.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2017 are considered not relevant to the Bank.

(b) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these financial statements. None of these standards are relevant on the financial statements of the Bank, except the following as set out below:

<u>PFRS 9, Financial instruments (effective for annual periods beginning on or after January 1, 2018)</u>

PFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Bank will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

Classification and measurement of financial assets

Investments in debt instruments

Under PFRS 9, a financial asset should be subsequently measured at amortized cost if both of the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset should be subsequently measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

If the financial asset is measured at FVOCI, all movements in the fair value should be taken through OCI, except for the recognition of impairment gains or losses, interest revenue in line with the effective interest method and foreign exchange gains and losses, which are recognized in profit or loss.

If the financial asset does not pass the business model assessment and SPPI criteria, or the fair value option is applied, it is measured at fair value through profit or loss (FVTPL). This is the residual measurement category.

Investments in equity instruments

Under PFRS 9, investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified at FVTPL, with dividend income recognized in profit or loss.

For all other equities within the scope of PFRS 9, the standard allows entities to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss (except for equities that give an investor significant influence over an investee according to PAS 28, which can only be accounted for under PFRS 9 if they are measured at FVTPL). Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of an investment, in which case they are recognized in OCI. There is no recycling of amounts from OCI to profit or loss – for example, on sale of an equity investment – nor are there any impairment requirements. The entity however, can transfer the cumulative gain or loss within equity.

The initial results of the impact assessment done by the Bank on the classification and measurement of financial assets follow:

- Investments in debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at FVOCI, hence, there will be no change on the accounting for these investments.
- The Bank expects that held-to-maturity (HTM) securities will remain at amortized cost.
- AFS equity securities will likely be measured still at FVOCI following the irrevocable election available under PFRS 9.
- Financial assets classified as loans and receivables under PAS 39 will remain at amortized cost under PFRS 9.

Classification and measurement of financial liabilities

PFRS 9 will have no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities. The de-recognition rules have been transferred from PAS 39, Financial Instruments: Recognition and Measurement and have not been changed.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under PAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, loan commitments and certain financial guarantee contracts.

Based on the initial assessments performed to date, the Bank expects that the ECL model will not have a significant impact on the impairment provisioning for loans and advances.

Hedge accounting

The new hedge accounting rules under PFRS 9 will align the accounting for hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new hedge accounting rules will not have a significant impact on the Bank as there are no formal hedge accounting relationships as of December 31, 2017.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

<u>PFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after January 1, 2018)</u>

PFRS 15 will replace PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied.

The adoption of PFRS 15 will not have a material impact on the financial statements of the Bank.

<u>PFRS 16, Leases (effective for annual periods beginning on or after January 1, 2019)</u>

PFRS 16 will replace the current guidance in *PAS 17, Leases.* PFRS 16 which will become effective on January 1, 2019 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

The adoption of PFRS 16 will likely affect the accounting of certain assets currently held by the Bank under operating lease arrangements.

There are no other standards, amendments or interpretations that are not yet effective that are expected to have a material impact on the financial statements of the Bank.

24.2 Financial assets

24.2.1 Classification

The Bank classifies its financial assets in the following categories: (i) fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity securities and (iv) available-for-sale securities. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments: (i) that are not quoted in an active market, (ii) with no intention of being traded, and (iii) that are not designated as available-for sale. Significant accounts falling under this category are cash and other cash items, due from BSP and other banks, loans and advances and accrued interest receivable, other receivables and miscellaneous deposits under Other assets, net.

Held-to-maturity security

The Bank's held-to-maturity security is a non-derivative financial asset with a fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

Available-for-sale securities

Available-for-sale securities are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale securities are classified as such in the statement of financial position.

24.2.2 Recognition and measurement

Initial recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity securities and available-for-sale securities are recognized on trade date, the date on which the Bank commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers or when the right to receive payment is established. Financial assets such as held to maturity securities, available for sale securities and loans and advances are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized in profit or loss.

Subsequent measurement

Available-for-sale securities are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost using the effective interest method. Changes in the fair value of available-for-sale securities are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative fair value adjustments previously recognized in other comprehensive income is recognized in profit or loss. However, interest is calculated on these securities using the effective interest method and foreign currency gains or losses on monetary assets classified as available-for-sale are recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the Bank's right to receive payment is established.

24.2.3 Reclassification

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables or held-to-maturity securities out of the available-for-sale category if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

24.2.4 Derecognition

A financial asset is derecognized when the contractual right to receive the cash flows from the asset has ceased to exist or the asset has been transferred and substantially all the risks and rewards of ownership of the asset are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

24.2.5 Impairment of financial assets

(a) Assets carried at amortized cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial asset is impaired. A financial asset or a group of financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of impairment include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position; and
- deterioration in the value of collateral.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less cost of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss is recognized in the statement of total comprehensive income and the carrying amount of the asset is reduced through the use of an allowance.

For purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of total comprehensive income as a reduction of impairment losses for the year.

(b) Assets classified as available-for-sale

The Bank assesses at each reporting date whether there is objective evidence that a security classified as available-for-sale is impaired. For debt securities, the Bank uses the criteria disclosed under loans and advances. For an equity security classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. Generally, the Bank treats 20% or more as 'significant' and greater than twelve months as 'prolonged'.

The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in profit or loss) is removed from other comprehensive income and recognized in profit or loss when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

24.3 Financial liabilities

24.3.1 Classification

The Bank classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss, and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

As at December 31, 2016 and June 30, 2016, the Bank has no financial liabilities that are designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost.

Financial liabilities measured at amortized cost include deposit liabilities, accrued interest and other expenses, and other liabilities, primarily accounts payable.

24.3.2 Recognition and measurement

Initial recognition and measurement

Financial liabilities at amortized cost are initially recognized at fair value plus transaction costs.

Subsequent measurement

Financial liabilities are subsequently measured at amortized cost using the effective interest method.

24.3.3 Derecognition

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired).

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

24.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

Financial instruments

The Bank classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp. (PDEX), etc.).

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The Bank has no assets or liabilities classified under Level 3 as at December 31, 2017 and 2016.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from PDEX and Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The Bank uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity. For these financial instruments, inputs into models are generally market observable.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair value for loans and advances as well as liabilities to customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

Non-financial assets or liabilities

The Bank uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.
- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

24.5 Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are initially recognized as assets and subsequently apportioned over the period covered by the payment and charged to the appropriate accounts in the statement of total comprehensive income when incurred.

Prepayments are presented under "Other assets" account (Note 7).

24.6 Bank premises, furniture, fixtures and equipment

Bank premises, furniture, fixtures and equipment are initially recognized at historical cost which comprises its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location necessary for it to be capable of operating in the manner intended by management. These are subsequently carried at cost less accumulated depreciation and any impairment in value. Expenses that provide incremental future economic benefits to the Bank are added to the carrying amount of an item of bank premises, furniture, fixtures and equipment.

All other expenses are recognized in the statement of total comprehensive income as incurred.

Depreciation of bank premises, furniture, fixtures and equipment commences once the property and equipment are available for use and computed using the straight-line basis over the estimated useful lives of property and equipment as follows:

	Number of years
Bank premises	25-50
Furniture, fixtures and equipment	3-5
Transportation and equipment	5
Leasehold improvement	5 or lease term; whichever is shorter

The useful lives and depreciation method are reviewed at each reporting date to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

When bank premises, furniture, fixtures and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations. Fully depreciated bank premises, furniture, fixtures and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization is charged against current operations.

24.7 Computer software

The Bank's computer software was acquired separately and was initially recognized at cost. Following initial recognition, computer software is carried at cost less any accumulated amortization and any accumulated impairment losses. Computer software is amortized over the useful or economic life, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method is reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on the basis of the expected useful lives of five (5) years. Costs associated with maintaining computer software are expensed as incurred. The assets are derecognized when there is no future economic benefit associated with its continuing use.

24.8 Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of bank premises, furniture, fixtures and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income.

24.9 Leases

Leases which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Bank is a party to an operating lease as a lessee on the offices of its branches. Payments made under operating leases (less any incentives given by the lessor) are charged to profit or loss.

24.10 Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of total comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting date the Bank reassess the need to recognize previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

24.11 Retirement benefit obligation

The Bank provides defined benefit retirement plan for all regular and qualified employees. The retirement plan is generally funded through payments to a trustee bank determined by periodic actuarial calculations.

The retirement benefit that an employee will receive on retirement under a defined benefit plan is dependent on several factors such as age, years of service and compensation. The Bank's defined benefit retirement plan provides a retirement benefit equivalent to one hundred percent (100%) of plan salary for every year credited service for qualified employees.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurement comprising actuarial gains and losses, return on plan asset and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account "Remeasurement gains (losses) on retirement plan" is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

Past-service costs are recognized immediately in the statement of total comprehensive income.

24.12 Capital stock

Capital stock comprise common shares which meet the equity classification. This is presented in the statement of financial position equal to the par value of the shares issued and outstanding as at reporting dates.

Additional paid-in capital

Additional paid-in capital represents premium received on the issuance of capital stock above its par value. Transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Retained earnings

Retained earnings include all current and prior period results as reported in the statement of total comprehensive income.

24.13 Interest income and expense

Interest income and expense are recognized in the statement of total comprehensive income for all interest-bearing financial instruments using the effective interest method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

24.14 Service charges and fees

Service charges and penalties are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability and can be measured reliably.

24.15 Other income

Revenue is recognized when earned.

24.16 Expense recognition

Cost and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses in the statement of total comprehensive income are presented using the functional method.

Operating expenses constitute costs of operating, marketing and administering the Bank and are expensed as incurred.

24.17 Related party relationships and transactions

Related party relationship exists when (a) a person or a close member of that person's family has control or joint control, has significant influence or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity, (b) an entity is related to the Bank if, the entity and the Bank are members of the same group, one entity is an associate or joint venture of the other entity, both entities are joint ventures of the same third party, one entity is a joint venture of a third entity and the other entity is an associate of the third party, an entity is a post-employment benefit plan for the benefit of employees of the Bank, the entity is controlled or jointly controlled by a person who has control or joint control over the Bank and a person as identified in (a) above has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

24.18 Provisions and contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Bank expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statement of total comprehensive income, net of any reimbursement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Events after the reporting date

The Bank identifies post year-end events as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Post year-end events that provide additional information about the Bank's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the financial statements when material.

Note 25 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by RR No. 15-2010 that is relevant to the Bank. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Documentary stamp taxes

Documentary stamp taxes paid for the year ended December 31, 2017 amounts to P139,439.

(ii) Withholding taxes

Withholding taxes paid and accrued for the year ended December 31, 2017 consist of:

	Paid	Accrued	Total
Income taxes withheld on compensation	7,650,397	-	7,650,397
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,433,021	-	1,433,021
Creditable income taxes withheld (expanded)	1,995,029	-	1,995,029
Fringe benefit tax	1,660,040	202,200	1,862,240
	12,738,487	202,200	12,940,687

(iii) All other local and national taxes

Local and national taxes paid and accrued for the year ended December 31, 2017 consist of:

	Paid	Accrued	Total
Gross receipts tax	5,865,078	400,000	6,265,078
Real property tax	316,046	-	316,046
Municipal taxes	189,034	-	189,034
Others	90,689	-	90,689
	6,460,847	400,000	6,860,847

(iv) Tax cases and assessments

The Bank received a formal assessment notice dated October 18, 2017 covering deficiency income tax amounting to P15,188,827 for the taxable year 2014. The Bank requested for reinvestigation on a letter dated November 16, 2017 which was granted by the BIR in December 2017.

As at December 31, 2017, the open tax years of the Bank are 2016, 2015 and 2014.